

PREMIUM EXPLORATION INC.
Report to Shareholders and
Management Discussion and Analysis
Of the Financial Position and Results of Operations
For the Quarter Ended March 31, 2006

May 29, 2006

TO OUR SHAREHOLDERS:

This Management's Discussion and Analysis ("MD&A") supplements, but does not form part of, the interim consolidated financial statements of the Company and the notes thereto for the quarter ended March 31, 2006. Consequently, the following discussion and analysis of the financial condition and results of operations for Premium Exploration Inc. ("Premium" or the "Company"), should be read in conjunction with the interim consolidated financial statements for the quarter ended March 31, 2006 and related notes therein, which have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied.

Discussion of the Company, its operations and associated risks is further described in the Company's filings, available for viewing at www.sedar.com. A copy of this MD&A will be provided to any applicant upon request.

FORWARD-LOOKING STATEMENTS

Certain statements contained in the following MD&A and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth in the Company's filings and herein.

GENERAL

Premium is a mineral exploration company that has unproven mineral property interests in Montana, USA and Sonora Mexico. Our principal business activities have been the exploration of two mineral properties known as the Montana Property and the Cucurpe Property respectively located in the Stillwater Complex, the State of Montana, United States of America and the State of Sonora, Mexico, respectively. The Company's Montana Property consists of 137 mining claims acquired through three separate acquisition agreements that were completed during the third and fourth quarters of 2004. The Company's property located in Mexico consists of 32 mining concessions and was acquired by staking 13 new concessions during the first quarter of 2005, and the completion of an acquisition agreement on July 17, 2005 for the balance of the 19 mining concessions. All property transactions have been conducted on an arm's length basis between the Company and the vendors.

The Montana Property and the Cucurpe Property are the primary exploration properties held by the Company – see *Mineral Exploration*.

SIGNIFICANT EVENTS AND TRANSACTIONS

During the quarter ended March 31, 2006, the Company completed a listing ("IPO") with the TSX Venture Exchange and raised \$1,298,927 of gross proceeds on the issuance of 5,000,000 units. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant allows the holder to acquire one additional common share for two years from the date of the IPO at C\$0.40 per share. The Company also issued 50,000 shares at a deemed value of \$12,989 and incurred share issuance costs of \$334,622 in connection with the IPO, including \$167,014 of financing costs deferred at December 31, 2005.

On March 3, 2006, the Company granted 750,000 stock options to directors, officers and employees of the Company, at C\$0.30 per share for a period of 5 years.

On April 11, 2006, the Company announced that, due to the delays in closing the IPO, it would accelerate Phase I of the exploration program on the Cucurpe Property and increase the budget to \$200,000. The accelerated plans on Phase I include certain components of the planned Phase II program. The Phase II program was not dependent upon results of the Phase I program. The revised Phase I program commenced in early May 2006.

MINERAL EXPLORATION

Montana Property

During the quarter ended March 31, 2006, the expenditures on the Montana Property, were very limited as a result of the limited cash resources available as the Company worked on completing its IPO.

The Company has concluded that, at this time, it appears that the Montana Property has several interesting occurrences of PGM mineralization associated with the chromitites and gold associated with the fault zone that warrant further investigation. The Company has developed a two phase exploration program that it will begin in 2006 to further explore the Montana Property. Phase I is budgeted to cost \$174,900 with Phase II having a budget of The details for the second phase of the 2006 exploration program should be finalized based on the results of first phase, as the information generated during first phase will influence and refine the geological model and further refine the exploration targets. The exploration targets that need to be further defined are the gold, PGM mineralization associated with the north trending fault zone and the PGM mineralization associated with the chromitite layers. Phase 2 of the work program on the Montana properties is contingent upon the Company raising additional equity from subsequent offerings of its shares or from the exercise of warrants from this Offering and is not included in the Use of Proceeds from the IPO.

Cucurpe Property

The Phase 1 exploration program, was originally budgeted at \$68,900, will provide geological data and locate areas of anomalous mineralization. This information will be used by the Company to prioritize the properties and commence a detailed exploration program on the targets with the potential for substantive mineralization. The Phase 2 exploration program, was originally budgeted at \$187,000, will include detailed geologic mapping and sampling as well as drilling on the selected targets. The drilling will test areas of anomalous mineralization and will be designed to delineate mineralization along strike as well as down dip.

Due to the delays in completing the IPO process, the Company has moved several elements intended to occur in Phase II into Phase I, such that the budget for Phase I has been increased to the recently announced \$200,000 amount with Phase II decreased to \$55,900.

SELECTED ANNUAL INFORMATION

Fiscal Period Ended	December 2005	December 2004
Total revenues	\$Nil	\$Nil
Net loss from continuing operations	\$195,799	\$110,912
Net loss	\$195,799	\$110,912
Basic and diluted loss per share	\$(0.02)	\$(0.03)
Total assets	\$796,302	\$537,203
Long-term financial liabilities	\$28,454	\$30,298
Cash dividends declared	\$Nil	\$Nil

RESULTS OF OPERATIONS

The loss for the quarter ended March 31, 2006 was \$115,445, which compares to a loss of \$46,537 for the comparable quarter of 2005. The increase in the loss for the current quarter is due to a number of factors including significant increases in wages, fees and benefits, stock-based compensation, travel costs, professional fees and shareholder relations. The current quarter loss includes wages, fees and benefits of \$22,574 (2005 - \$16,133), which includes \$9,000 (2005 - \$9,000) in management fees to Delbert W. Steiner, the President of the Company. The amount also increased due to a full year of wages and benefits for our Montana office accountant and certain one-time fees related to potential additional exploration projects. The stock-based compensation for the quarter reflects the estimated fair value of the vested portion of the 750,000 stock options granted to directors, officers and employees in the quarter ended March 31, 2006. The loss also includes an increase in travel costs to \$29,611 (2005 - \$13,102), which was due to a number of factors including attendance at several conferences and trade shows, and a number of trips by management and directors indirectly related to fund raising, the IPO process and general and administrative duties. Professional fees increased to \$12,118 from \$1,500 due to the majority of the 2005 costs being capitalized as deferred financing costs. The 2006 costs included costs, which were not related to the IPO process. Shareholder relations increased to \$15,342 (2005 - \$856) due to printing costs and the completion of the IPO in the quarter, which results in increased communications to shareholders.

The Company incurred resource property costs of \$44,253 (2004 - \$47,499) during the quarter ended March 31, 2006, as a result of exploration work completed on its Montana and Mexican properties. The costs continued at a care and maintenance level as the Company awaited the completion of the IPO and the receipt of the proceeds in order to commence the phased work programs on the Montana and Mexican properties.

SUMMARY OF QUARTERLY RESULTS

Financial Data for the Last Eight Quarters

Three Months Ended	Mar-06	Dec-05	Sep-05	Jun-05	Mar-05	Dec-04	Sep-04	Jun-04
Total Revenues	\$Nil	\$Nil	Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Loss from continuing operations	\$115,445	\$47,737	\$30,472	\$71,053	\$46,537	\$47,085	\$63,827	\$Nil
Loss for the period	\$115,445	\$47,737	\$30,472	\$71,053	\$46,537	\$47,085	\$63,827	\$Nil
Loss per share	\$(0.01)	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.00)	\$(0.01)	\$(0.03)	\$(0.00)

The quarterly losses are relatively consistent throughout the period. The loss for the current quarter is higher than prior quarters due to the \$21,179 of stock-based compensation on the 750,000 options granted in the quarter.

FINANCIAL POSITION AND LIQUIDITY

Premium has no history of profitable operations and its mineral projects are at an early stage. Therefore, it is subject to many risks common to comparable companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

At the end of the quarter under review, the Company had a working capital of \$614,141 as compared to a working capital deficiency of \$379,313 at December 31, 2005. The change during the quarter primarily reflects the closing of the IPO for net proceeds of \$977,294.

At March 31, 2006, the Company had cash on hand of \$855,029 compared to \$12,084 at December 31, 2005. Management believes the cash balance is adequate to fund ongoing expenses as required for its mineral property agreements and its general and administrative activities for the coming 12 months. .

CAPITAL RESOURCES AND COMMITMENTS

The Company has mineral expenditure requirements under its East-West property agreement of \$50,000 by December 31, 2006. The Company also has annual claim rental fees of approximately \$17,125 in order to maintain its Montana properties in good standing.

The Company has to expend \$200,000 on the Mexican concessions covered by the Acuna Option Agreement by May 20, 2006. In addition, the Company must pay duties twice yearly to the Mexican Government Department of Mines. The estimated duties on the 32 Concessions are \$5,400 per year.

The Company has an agreement dated June 17, 2005, for the purposes of negotiating service access from the landowners in the area of the Company's resource properties. The agreement had an initial term of one year until December 2005 at \$3,000 per month and renewed for an additional year to December 2006. The contract may be terminated upon six months written notice by either party.

The Company has an agreement, with Delbert W. Steiner, President and Director, which call for monthly payments of \$3,000 each with a term of one year to 1 year to 1 March 2005, renewable upon mutual consent. The contract has been renewed and is next renewable at 1 March 2007.

It will be necessary for the Company to arrange for additional financing following the completion of the coming 12 month-period to meet its ongoing exploration and overhead requirements.

Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. Although the Company has successfully completed its IPO, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements as at March 31, 2006 and as at the date hereof.

RELATED PARTY TRANSACTIONS

Transactions with related parties are disclosed in the financial statements and include management fees for the quarter of \$9,000 (2005 - \$9,000) paid or accrued to a director of the Company in his capacity as President. The Company also paid or accrued accounting fees for the quarter of \$7,705 (2005 - \$6,614) to a professional partnership in which a director is a partner and incurred \$7,665 (2005 - \$1,081) in interest expense on a note payable to a director in the quarter.

CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies in the period under review.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, GST receivable, accounts payable, due to related parties and notes payable. The Company maintains most of its cash in Canadian dollars. However, amounts are converted into U.S. dollars and Mexican pesos and are therefore subject to changes in fair value due to fluctuations in exchange rates. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

Consistent with other companies in the mineral exploration industry, Premium has no source of operating revenue. The Company's March 31, 2006 interim consolidated financial statements provide a breakdown of the general and administrative expenses for the year under review (Statement 2) and an analysis of the capitalized and expensed exploration and development costs incurred on its mineral properties (Schedule and Note 3a).

OUTSTANDING SHARES

As at March 31, 2006, the Company had 17,964,303 common shares issued and outstanding versus 12,914,303 common shares issued and outstanding at December 31, 2005. The increase over 2005 reflects the success of the Company in completing its IPO

Issued and diluted shares outstanding as at the date hereof are 17,964,303 and 20,989,303 respectively. The increase from December 31, 2005 reflects the subsequent issuance of 5,000,000 shares on the closing of the IPO and a further 50,000 shares related to the broker's corporate finance fee.

INVESTOR RELATIONS ACTIVITIES

With respect to public relations, the Company's policy is to provide information from its corporate offices to investors and brokers directly.

MANAGEMENT

Premium is very dependent upon the personal efforts and commitments of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of Premium could result, and other persons would be required to manage and operate the Company.

RISK FACTORS

Companies operating in the mining industry face many and varied kinds of risks. While risk management cannot eliminate the impact of all potential risks, the Company strives to manage such risks to the extent possible and practical. Following are the risk factors most applicable to the Company:

Exploring and developing mineral resource projects bears a high potential for all manner of risks. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. Moreover, even one such factor may result in the economic viability of a project being detrimentally impacted such that it is neither feasible nor practical to proceed. The Company closely monitors its activities and those factors that could impact them, and employs experienced consulting, engineering, insurance and legal advisors to assist in its risk management reviews.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

At present the principal activity of the Company is the exploration and development of gold resource properties. The feasible development of such properties is highly dependent upon the price of gold. A sustained and substantial decline in commodity gold prices could result in the write-down, termination of exploration and development work or loss of its interests in identified resource properties. Although such prices cannot be forecasted with certainty, the Company carefully monitors factors that could affect gold commodity prices in order to assess the feasibility of its resource projects.

Exploration and development projects are subject to the environmental laws and regulations of the country within which the Company is conducting its operations. As such laws are subject to change, the Company carefully monitors proposed and potential changes, and ensures that it is and will be in strict compliance.

Various non-governmental organizations dedicated to environmental protection monitor, amongst others, the mining industry. These organizations have in the past commenced actions with the regulatory agencies or the courts to prevent or delay mining activities.

APPROVAL

The Board of Directors of the Company has approved the disclosure contained in this Annual Management Discussion and Analysis.

Respectfully submitted
On Behalf of the Board of Directors

"Delbert W. Steiner"

Delbert W. Steiner
President